

CITY OF HARLAN

**INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2011

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**CITY OF HARLAN
OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Gary H. Christiansen	Mayor	December, 2011
Dave Miller	Mayor pro tem	December, 2011
Aaron Anliker	Council Member	December, 2013
Rhonda Brown	Council Member	December, 2011
Keith Kaufman	Council Member	December, 2013
David Pedersen	Council Member	December, 2011
Orv Roecker	Council Member	December, 2013
 Terry Cox	 City Administrator	 Indefinite
Susan Lambert	City Clerk	Indefinite
Marjorie Ahrenholtz	City Treasurer	Indefinite
Joseph Lauterbach	City Attorney	Indefinite

MUXFELDT ASSOCIATES, CPA, P.C.

September 1, 2011

Certified Public Accountant

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

Lonnie G. Muxfeldt
Certified Public
Accountant

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Iowa
Missouri

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Harlan, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of City of Harlan's management. My responsibility is to express an opinion on these financial statements based on my audit. I did not audit the financial statements of the Harlan Municipal Utilities. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and my opinion, insofar as it relates to the amounts included for the Harlan Municipal Utilities, is based on the report of the other auditors.

I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

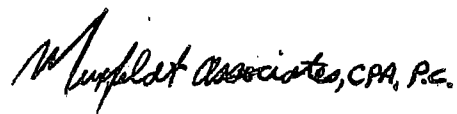
In my opinion, based on my audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Harlan as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Continued . . .

In accordance with *Government Auditing Standards*, I have also issued my report dated September 1, 2011 on my consideration of the City of Harlan's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 11, and 34 through 36 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I applied limited procedures, which consisted principally in inquiries of management regarding the methods of measurement and presentation of the supplementary information. I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City of Harlan's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements which are prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

 Murphy Associates, CPA, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Harlan provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities increased 5.5%, or approximately \$349,000, from fiscal year 2010 to fiscal year 2011. Property tax increased approximately \$240,000 and bond proceeds increased \$982,947.

Disbursements of the City's governmental activities increased 0.3%, or approximately \$19,000, in fiscal year 2011 from fiscal year 2010.

The City's total cash basis net assets decreased 6%, or approximately \$1,368,303, from June 30, 2010 to June 30, 2011. Of this amount, the assets of the governmental activities increased approximately \$278,453 and the assets of the business type activities decreased approximately \$1.6 million.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides and analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets is divided into two kinds of activities:

Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) The General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Industrial Park, Equipment Revolving and Employee Benefits, 3) the Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds and the Internal Service Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information on the Sewer Fund and Sewer Equipment Replacement Fund. The City also reports the activity of its component unit, Harlan Municipal Utilities, as an Enterprise Fund.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased modestly from a year ago, increasing from \$951,000 to \$1,229,000, approximately. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities			
		Year ended June 30,	
		2011	2010
Receipts:			
Program receipts:			
Charges for services	\$	1,792,361	\$ 1,886,924
Operating grants, contributions and restricted interest		574,042	544,002
Capital grants, contributions and restricted interest		123,831	563,934
General receipts:			
Property tax		1,732,993	1,497,453
Tax increment financing		700,948	611,180
Debt service		298,760	294,326
Local option tax		443,546	385,651
Hotel / motel tax		45,472	41,768
Unrestricted investment earnings		4,995	4,762
Miscellaneous		26,610	33,221
Bond proceeds		982,947	-0-
Sale of assets		2,666	26,901
Transfers, net		(72,061)	418,034
Total receipts		<u>6,657,110</u>	<u>6,308,156</u>
Disbursements:			
Public safety		1,298,212	949,364
Public works		1,083,467	1,106,564
Community and economic development		554,117	235,494
Culture and recreation		911,837	800,439
General government		514,232	483,744
Debt service		872,198	649,844
Capital projects		265,712	993,567
Nonprogram		878,882	1,140,675
Total disbursements		<u>6,378,657</u>	<u>6,359,691</u>
Increase (decrease) in cash		278,453	(51,535)
Net assets, beginning of year		<u>951,035</u>	<u>1,002,570</u>
Net assets, end of year	\$	<u>1,229,488</u>	\$ <u>951,035</u>

The City's total receipts for governmental activities increased 5.5%, or approximately \$349,000. The total cost of all programs and services increased approximately \$19,000, or 0.3%, with no new programs added this year. The significant increase in receipts was primarily the result of proceeds received from the issuance of bonds.

The City increased property tax rates for fiscal year 2011 an average of 8.4%. This increase raised the City's property tax receipts approximately \$240,000 in fiscal year 2011. Based on increases in total valuation, property tax receipts are budgeted to increase an additional \$22,000 next year.

The cost of all governmental activities this year was approximately \$6.4 million, an increase of approximately \$19,000 from the prior year. However, as shown in the Statement of Activities and Net Assets on pages 13 - 14, the amount taxpayers ultimately financed for these activities was only \$3.888 million because some of the cost was paid by those directly benefited from the programs (\$1.792 million) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (\$698,000). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, decreased in fiscal year 2011 from approximately \$1.1 million to \$698,000, principally due to receiving grant proceeds in the prior year.

Changes in Cash Basis Net Assets of Business Type Activities			
Year ended June 30,			
	2011		2010
Receipts:			
Program receipts:			
Charges for services and sales:			
Sewer	\$ 753,659	\$	743,517
HMU Component unit	13,753,491		13,259,166
Operating grants, contributions, and restricted interest	72,675		89,520
Capital grants, contributions, and restricted interest	-0-		-0-
General receipts:			
Unrestricted interest	185		248
Miscellaneous	73,019		202,677
Loan proceeds	214,740		10,545,000
Transfers, net	72,061		(418,034)
Total receipts	<u>14,939,830</u>		<u>24,422,094</u>
Disbursements:			
Sewer	995,132		603,795
HMU Component unit	15,591,454		15,860,863
Total disbursements	<u>16,586,586</u>		<u>16,464,658</u>
Increase (decrease) in cash	(1,646,756)		7,957,436
Net assets, beginning of year	<u>21,882,570</u>		<u>13,925,134</u>
Net assets, end of year	\$ <u>20,235,814</u>	\$	<u>21,882,570</u>

Total business type activities receipts for the fiscal year were approximately \$14.9 million compared to approximately \$24.4 million last year. The significant decrease was due primarily to the receipt of \$10.5 million in bond proceeds on the part of the City's Utilities. The cash balance decreased approximately \$1.6 million because of HMU capital acquisition costs. Total disbursements for the fiscal year increased .7% to approximately \$16.6 million.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Harlan completed the year, its governmental funds reported a combined fund balance of \$1,229,488, an increase of more than \$278,000 above last year's total of \$951,035. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance decreased \$120,720 from the prior year to \$283,827. The principal reason for this is that the City made a two year contribution to the County Communication Center in this fiscal year

The Special Revenue, Road Use Tax fund cash balance increased \$53,333 to \$119,480. The City intends to use this money to maintain and upgrade the condition of all City streets.

The Special Revenue, Industrial Park cash balance increased \$48,834 to \$311,092 and consists of tax increment financing transfers from the Urban Renewal Fund.

The Special Revenue, Equipment Revolving cash balance increased \$67,173 to \$429,370. The Equipment Revolving Fund aggregates resources (mostly through transfers) for equipment purchases for the various departments of the City.

The Debt Service Fund cash balance increased \$13,543 to \$15,808. Bond principal and interest payments totaled \$857,849. \$410,000 of bond principal was called and \$990,000 new bonds were issued.

The Capital Projects, Street Overlay cash balance increased \$408,927 to \$252,992. \$300,000 of this increase is attributable to a transfer of bond proceeds from the Debt Service Fund to finance various City street projects next fiscal year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Enterprise, Sewer Fund cash balance decreased \$57,291 to a deficit of \$49,702 due primarily to a \$160,000 transfer to the Sewer Equipment Replacement Fund.

The Enterprise, Sewer Equipment Replacement Fund decreased \$36,857 to \$2,751,375. This fund aggregates resources, primarily through transfers from the Sewer and other funds, for the maintenance and upgrades to the City's sewer system.

The Enterprise, HMU Component Unit's cash balance decreased \$1,552,608 to \$17,534,141. The decrease was primarily due to capital acquisitions and projects.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget just once. The amendment was approved on May 24, 2011 and resulted in an increase in governmental operating disbursements by \$1.9 million and a decrease in business type activities of \$10 million.

The City's receipts were approximately \$3 million less than budgeted. This was primarily due to the City receiving less in utility charges than anticipated, even after the amendment.

Total disbursements were \$2.8 million less than the amended budget. However, the City exceeded the amounts budgeted in the debt service function for the year ended June 30, 2011.

DEBT ADMINISTRATION

At June 30, 2011, the City had \$4,950,000 in bonds and other long-term debt outstanding, compared to \$4,635,000 last year, as shown below.

Outstanding Debt at Year-End		
	2011	2010
General obligation bonds	\$ 4,950,000	\$ 4,635,000

Debt increased as a result of issuing \$990,000 of general obligation bonds for a variety of City projects such as fire trucks, playground equipment, remodeling of police department offices and council chambers, Christmas lights, paving fire department parking lot, radio equipment base station and vehicles, and bond issuance costs. The City also called \$410,000 of Capital Loan Notes issued in 2004.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5 percent of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$4.95 million is significantly below its constitutional debt limit of \$12.5 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Harlan's elected and appointed officials and citizens considered many factors when setting the fiscal year 2012 budget, tax rates, and fees that will be charged for various City activities. Property owners will see an increase in their tax levy next year. The \$990,000 bond issue will increase the debt service levy by an estimated 55 cents per \$1,000 taxable valuation, increasing the overall levy from \$15.79 to \$16.34.

Valuations stand at \$129.5 million as compared to \$123.5 million a year ago. The city will increase its total tax asking to \$2,053,512, up from the current year's \$1,998,000, or about \$55,000.

The City will continue to utilize local option sales tax monies estimated to be approximately \$380,000 next year. One half is committed to property tax relief and the other half is appropriated for infrastructure, buildings, parks and streets.

If these estimates are realized, the City's budgeted cash balances are expected to decrease by approximately \$644,000 by the end of fiscal year 2012.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Susan Lambert, City Clerk, 711 Durant Street, Harlan, Iowa.

BASIC FINANCIAL STATEMENTS

CITY OF HARLAN

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

	Disbursements	Charges for Services	Program Receipts	
			Operating Grants, Contributions, And Restricted Interest	Capital Grants, Contributions And Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety	\$ 1,298,212	\$ 97,271	\$ 4,533	\$ -0-
Public works	1,083,467	273,967	533,339	-0-
Community and economic dev	554,117	2,067	-0-	-0-
Culture and recreation	911,837	203,022	35,939	40,442
General government	514,232	336,681	-0-	-0-
Debt service	872,198	-0-	-0-	-0-
Capital projects	265,712	-0-	-0-	83,389
Nonprogram - contractual services	878,882	879,353	231	-0-
Total governmental activities	6,378,657	1,792,361	574,042	123,831
Business type activities:				
Sewer	995,132	753,659	2,060	-0-
HMU - Component unit	15,591,454	13,753,491	70,615	-0-
Total business type activities	16,586,586	14,507,150	72,675	-0-
Total	\$ 22,965,243	\$ 16,299,511	\$ 646,717	\$ 123,831
General receipts:				
Property taxes levied for:				
General purposes				
Tax increment financing				
Debt service				
Hotel / motel tax				
Local option tax				
Unrestricted investment earnings				
Miscellaneous				
Bond proceeds				
Sale of property				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets, beginning of year				
Cash basis net assets, end of year				
Cash Basis Net Assets				
Restricted:				
Expendable:				
Streets				
Debt service				
Urban renewal				
Other purposes				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Net (Disbursements), Receipts and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
\$ (1,196,408)	\$ -0-	\$ (1,196,408)
(276,161)	-0-	(276,161)
(552,050)	-0-	(552,050)
(632,434)	-0-	(632,434)
(177,551)	-0-	(177,551)
(872,198)	-0-	(872,198)
(182,323)	-0-	(182,323)
702	-0-	702
(3,888,423)	-0-	(3,888,423)
-0-	(239,413)	(239,413)
-0-	(1,767,348)	(1,767,348)
-0-	(2,006,761)	(2,006,761)
(3,888,423)	(2,006,761)	(5,895,184)
1,732,993	-0-	1,732,993
700,948	-0-	700,948
298,760	-0-	298,760
45,472	-0-	45,472
443,546	-0-	443,546
4,995	185	5,180
26,610	73,019	99,629
982,947	214,740	1,197,687
2,666	-0-	2,666
(72,061)	72,061	-0-
4,166,876	360,005	4,526,881
278,453	(1,646,756)	(1,368,303)
951,035	21,882,570	22,833,605
\$ 1,229,488	\$ 20,235,814	\$ 21,465,302
\$ 119,480	\$ -0-	\$ 119,480
15,808	2,330,085	2,345,893
311,092	-0-	311,092
741,716	4,450,524	5,192,240
41,392	13,455,205	13,496,597
\$ 1,229,488	\$ 20,235,814	\$ 21,465,302

CITY OF HARLAN

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES - GOVERNMENTAL FUNDS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

	Special Revenue		
	General	Road Use Tax	Industrial Park
Receipts:			
Property tax	\$ 1,230,134	\$ -0-	\$ -0-
Tax increment financing	-0-	-0-	-0-
Other city tax	49,086	-0-	-0-
Licenses and permits	83,935	-0-	-0-
Use of money and property	84,909	-0-	184
Intergovernmental	353,671	504,086	-0-
Charges for services	405,489	-0-	-0-
Special assessments	3,642	-0-	-0-
Miscellaneous	54,330	-0-	-0-
Total receipts	<u>2,265,196</u>	<u>504,086</u>	<u>184</u>
Disbursements:			
Operating:			
Public safety	1,033,827	-0-	-0-
Public works	627,149	397,612	-0-
Community and economic development	115,060	-0-	-0-
Culture and recreation	786,130	-0-	-0-
General government	495,961	-0-	-0-
Debt service	-0-	-0-	-0-
Capital projects	-0-	-0-	-0-
Total disbursements	<u>3,058,127</u>	<u>397,612</u>	<u>-0-</u>
Excess (deficiency) of receipts over (under) disbursements	(792,931)	106,474	184
Other financing sources (uses):			
Sale of property	666	-0-	-0-
Note proceeds	-0-	-0-	-0-
Operating transfers in	749,517	-0-	48,650
Operating transfers out	(77,972)	(53,141)	-0-
Total other financing sources (uses)	<u>672,211</u>	<u>(53,141)</u>	<u>48,650</u>
Net change in cash balances	(120,720)	53,333	48,834
Cash balances, beginning of year	<u>404,547</u>	<u>66,147</u>	<u>262,258</u>
Cash balances, end of year	\$ <u>283,827</u>	\$ <u>119,480</u>	\$ <u>311,092</u>
Cash Basis Fund Balances			
Restricted for:			
Debt service	\$ -0-	\$ -0-	\$ -0-
Streets	-0-	119,480	-0-
Urban renewal	-0-	-0-	311,092
Other purposes	-0-	-0-	-0-
Unassigned	283,827	-0-	-0-
Total cash basis fund balances	\$ <u>283,827</u>	\$ <u>119,480</u>	\$ <u>311,092</u>

See notes to financial statements.

Special Revenue		Debt Service	Capital Projects	Other Nonmajor	Total
Equipment Revolving	Employee Benefits		Street Overlay		
\$ -0-	\$ 497,791	\$ 297,998	\$ -0-	\$ -0-	\$ 2,025,923
-0-	-0-	-0-	-0-	700,948	700,948
-0-	1,453	762	-0-	443,546	494,847
-0-	-0-	-0-	-0-	-0-	83,935
-0-	-0-	-0-	-0-	-0-	85,093
953	-0-	-0-	-0-	86,667	945,377
4,695	-0-	-0-	-0-	-0-	410,184
-0-	-0-	-0-	1,629	-0-	5,271
42,601	-0-	-0-	-0-	15,465	112,396
48,249	499,244	298,760	1,629	1,246,626	4,863,974
263,529	-0-	-0-	-0-	856	1,298,212
56,736	-0-	-0-	-0-	1,970	1,083,467
-0-	-0-	-0-	-0-	439,057	554,117
106,301	-0-	-0-	-0-	19,406	911,837
18,271	-0-	-0-	-0-	-0-	514,232
-0-	-0-	872,198	-0-	-0-	872,198
-0-	-0-	-0-	28,843	236,869	265,712
444,837	-0-	872,198	28,843	698,158	5,499,775
(396,588)	499,244	(573,438)	(27,214)	548,468	(635,801)
-0-	-0-	-0-	-0-	2,000	2,666
-0-	-0-	982,947	-0-	-0-	982,947
818,909	221,773	554,034	436,141	185,910	3,014,934
(355,148)	(721,017)	(950,000)	-0-	(938,717)	(3,095,995)
463,761	(499,244)	586,981	436,141	(750,807)	904,552
67,173	-0-	13,543	408,927	(202,339)	268,751
362,197	-0-	2,265	(155,935)	23,146	964,625
\$ 429,370	\$ -0-	\$ 15,808	\$ 252,992	\$ (179,193)	\$ 1,233,376
\$ -0-	\$ -0-	\$ 15,808	\$ -0-	\$ -0-	\$ 15,808
-0-	-0-	-0-	-0-	-0-	119,480
-0-	-0-	-0-	-0-	-0-	311,092
429,370	-0-	-0-	252,992	59,354	741,716
-0-	-0-	-0-	-0-	(238,547)	45,280
\$ 429,370	\$ -0-	\$ 15,808	\$ 252,992	\$ (179,193)	\$ 1,233,376

	Internal Service Funds		
	Flex Benefits	Group Insurance Trust	Total
Operating receipts:			
Use of money and property	\$ -0-	\$ -0-	\$ -0-
Charges for services	-0-	-0-	-0-
Miscellaneous	-0-	-0-	-0-
Total receipts	-0-	-0-	-0-
Operating disbursements:			
Public safety	-0-	-0-	-0-
Public works	-0-	-0-	-0-
Culture and recreation	-0-	-0-	-0-
General government	-0-	-0-	-0-
Business type activities	-0-	-0-	-0-
Total disbursements	-0-	-0-	-0-
Operating income (loss)	-0-	-0-	-0-
Non-operating receipts (disbursements):			
Interest on investments	-0-	231	231
Reimbursements	8,060	871,293	879,353
Contractual services	(9,579)	(869,303)	(878,882)
Transfer in	-0-	9,000	9,000
Transfer out	-0-	-0-	-0-
Net non-operating receipts (disbursements)	(1,519)	11,221	9,702
Excess (deficiency) of receipts over (under) disbursements	(1,519)	11,221	9,702
Cash balances, beginning of year	2,458	(16,048)	(13,590)
Cash balances, end of year	\$ 939	\$ (4,827)	\$ (3,888)
Cash Basis Fund Balances			
Unrestricted:	\$ 939	\$ (4,827)	\$ (3,888)
Total fund balance	\$ 939	\$ (4,827)	\$ (3,888)

See notes to financial statements.

CITY OF HARLAN

**RECONCILIATION OF THE STATEMENT OF CASH
RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011**

Total governmental funds cash balances (page 13)	\$	1,233,376
--	----	-----------

*Amounts reported for governmental activities in the Statement of Activities
and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan. The Internal Service Fund is included in governmental activities in the Statement of Activities and Net Assets

(3,888)

Cash basis net assets of governmental activities (page 11)	\$	<u>1,229,488</u>
--	----	------------------

Net change in cash balances (page 13)	\$	268,751
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*Amounts reported for governmental activities in the Statement of Activities
and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan. The change in net assets of the Internal Service Fund is reported with governmental activities.

9,702

Change in cash balance of governmental activities (page 11)	\$	<u>278,453</u>
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CITY OF HARLAN

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES -
PROPRIETARY FUNDS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

	Enterprise Funds			
	Sewer	Sewer Equipment Replacement	HMU Component Unit	Total
Operating receipts:				
Use of money and property	\$ 185	\$ -0-	\$ 59,066	\$ 59,251
Charges for services	727,501	-0-	13,694,425	14,421,926
Miscellaneous	22,158	77,019	-0-	99,177
Total operating receipts	<u>749,844</u>	<u>77,019</u>	<u>13,753,491</u>	<u>14,580,354</u>
Operating disbursements:				
Business type activities	<u>647,135</u>	<u>347,997</u>	<u>15,591,454</u>	<u>16,586,586</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	102,709	(270,978)	(1,837,963)	(2,006,232)
Non-operating receipts (disbursements):				
Interest on investments	-0-	2,060	70,615	72,675
Loan proceeds	-0-	-0-	214,740	214,740
Transfer in	-0-	446,249	-0-	446,249
Transfer out	(160,000)	(214,188)	-0-	(374,188)
Net non-operating receipts (disbursements)	<u>(160,000)</u>	<u>234,121</u>	<u>285,355</u>	<u>359,476</u>
Net change in cash balances	(57,291)	(36,857)	(1,552,608)	(1,646,756)
Cash balances, beginning of year	<u>7,589</u>	<u>2,788,232</u>	<u>19,086,749</u>	<u>21,882,570</u>
Cash balances, end of year	\$ <u>(49,702)</u>	\$ <u>2,751,375</u>	\$ <u>17,534,141</u>	\$ <u>20,235,814</u>
Cash Basis Fund Balances				
Restricted for:				
Debt Service	\$ -0-	\$ -0-	\$ 2,330,085	\$ 2,330,085
Other purposes	-0-	-0-	4,450,524	4,450,524
Unrestricted	(49,702)	2,751,375	10,753,532	13,455,205
Total cash basis fund balances	\$ <u>(49,702)</u>	\$ <u>2,751,375</u>	\$ <u>17,534,141</u>	\$ <u>20,235,814</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

(1) Summary of Significant Accounting Policies

The City of Harlan is a political subdivision of the State of Iowa located in Shelby County. It was first incorporated in 1879 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides sewer utilities for its citizens.

Reporting Entity

For financial reporting purposes the City of Harlan has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits or impose specific financial burdens on the City. The City has one component unit, which meets the Government Accounting Standards Board criteria.

These financial statements present the City of Harlan (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. Certain disclosures about the discretely presented component unit are not included because the component unit has been audited separately and a report has been issued under separate cover. The audited financial statements are available at the City Clerk's office.

Discrete Component Unit - The Harlan Municipal Utilities is presented in a separate column to emphasize that it is legally separate from the City, but is financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Utility is governed by a five-member board appointed by the Mayor/City Council and the Utility's operating budget is subject to the approval of the City Council.

Jointly Governed Organizations - The City also participates in several jointly governed organizations for which the City is not financially accountable or that the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete. City officials are members of the following boards and commissions: Shelby County Emergency Management Commission, Shelby County Ambulance Commission and The Shelby County Solid Waste Agency Board.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

(1) Summary of Significant Accounting Policies (Continued)

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories:

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants whose purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax is used to account for road construction and maintenance.

The Equipment Revolving Fund is used to aggregate resources (mostly through transfers) for equipment purchases for the various departments of the City.

The Employee Benefits Fund is used to account for taxes levied for the City's portion of statutory employee benefits such as social security, Medicare, retirement contributions, and health insurance and other benefits.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

(1) Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

The Debt Service Fund accounts for the principal and interest payments on the City's general long-term debt obligations.

The City reports the following major proprietary funds:

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Sewer Equipment Replacement Fund aggregates funds for future sewer projects.

The City reports former expendable trust funds (pre GASB-34) as other special revenue funds as they do not readily fall into GASB-34 Fiduciary fund categories of pension and other employee benefit trust funds, investment trust funds, private-purpose trust funds or permanent (formerly non-expendable) trust funds.

C. Measurement Focus and Basis of Accounting

The City of Harlan maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. At June 30, 2010, disbursements exceed amounts budgeted in the debt service function.

E. Property Tax Calendar

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2009, to compute the amounts, which became liens on property on July 1, 2009. These taxes were due and payable in two installments on September 30, 2010 and March 31, 2011. These taxes are recognized as income to the City when they are received from the county.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

(2) Deposits

The City's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the members of the pool to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's cash, which consists of cash on hand, cash in bank and certificates of deposit, held at two local institutions in the City's name totaled \$3,931,161 at June 30, 2011.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30,	General Obligation Bonds	
	Principal	Interest
2012	\$ 315,000	\$ 188,055
2013	545,000	178,555
2014	395,000	160,775
2015	225,000	147,328
2016	230,000	139,115
2017 - 2021	1,315,000	556,451
2022 - 2027	1,925,000	283,261
	<u>\$ 4,950,000</u>	<u>\$ 1,653,540</u>

The City has a general obligation debt limit of approximately \$12.5 million which was not exceeded during the year ended June 30, 2011.

The resolutions providing for the issuance of the general obligation debt include the following provisions:

- (a) The levy of taxes sufficient to provide payment of principal and interest when due.
- (b) Proceeds of the tax levy are to be collected in the debt service fund or a special revenue fund of the City, as it is applicable.

The City is in compliance with debt resolutions.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, IA 50306-9117.

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. The City's contribution to IPERS for the years ended June 30, 2011, 2010, and 2009 were \$116,096, \$107,325, and \$96,525, respectively, equal to the required contributions for each year.

(5) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides dental, medical and prescription drug benefits for retirees and their spouses. There are 33 active members and 1 retired member in the plan. Participants must be age 55 or older at retirement.

The medical/dental/prescription drug coverage is provided through a self-insured plan with Employee Benefit Systems (EBS), and with a 28-E agreement with Iowa Governmental Health Care Plan (IGHCP). Retirees under age 65 pay 100% of the premium for the medical/dental/prescription drug benefit that is available to active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$528 for single coverage and \$1,144 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2011, the City contributed approximately \$394,606 and plan members eligible for benefits contributed approximately \$33,288 to the plan.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, compensatory time and floating holiday hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2011, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 58,912
Compensatory time	34,582
Floating holiday	7,882
	<u>\$ 101,376</u>

This liability has been computed based on rates of pay in effect at June 30, 2011.

(7) Self - Insurance Program

The City has established a self-insurance medical program, which is accounted for in the Group Insurance Fund (an internal service fund). This program provides employee health benefit coverage up to a maximum of \$40,000 per employee per year. The City purchases commercial insurance for claims in excess of this coverage and all other risks of loss. The City pays all claims and is reimbursed from the re-insurer for excess claims. Settled claims have not exceeded the commercial coverage in any of the past three fiscal years.

All funds of the City participated in the program and make payments to the Self Insurance Fund based on actuarial estimates of the amounts needed to pay prior and current year claims. The unpaid claims liability of \$10,912 is based on Government Accounting Standards Board Statement No. 10, which requires that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. Changes in unpaid claims are as follows:

Unpaid claims, beginning of year	\$ 9,442
Incurred claims	424,739
Payments	<u>(423,269)</u>
Unpaid claims, end of year	<u>\$ 10,912</u>

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

(8) Deficit Fund Balances

As of June 30, 2011, the following funds had deficit balances:

<u>Fund</u>	<u>Deficit</u>
Capital Projects:	
Airport Improvement	\$ 1,200
GH Christiansen Subdivision	98,789
Wastewater Lift Project	121,558
Sewer Rehabilitation	17,000
Enterprise:	
Sewer	49,702
Internal Service:	
Group Insurance	4,827
Total	\$ <u>293,076</u>

The material deficit balances were a result of project costs incurred prior to availability of funds. Material deficits will be eliminated upon receipt of grant funds and transfer of funds upon completion of the projects. The deficit balance in the group insurance fund was a result of increased costs of health care coverage.

(9) Risk Management

The City of Harlan is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; error and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Urban Renewal

Harlan Urban Renewal Area

The original Harlan Urban Renewal Plan was dated April 1989 and was amended in June 1992, October 1993, March 2000, February 2002, March 2005, November 2006 and April 2008. Areas of the city within the urban renewal area include the Downtown Business District, the C. G. Therkildsen Center, G.H. Christiansen Subdivision, the Wastewater Treatment and the Industrial Park areas.

Laurel Street Urban Renewal Area

The Laurel Street Urban Renewal Area is a stand alone urban renewal plan adopted in March 2005 for residential development at the former Laurel School site.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

(11) Tax Increment Financing

The TIF receipts are recorded in the urban renewal fund then expended or transferred as follows:

	<u>2011</u>		<u>2010</u>
Cash balance, beginning of year	\$ -0-	\$	51,950
Tax Increment Financing receipts	700,948		611,180
General Fund payback	<u>37,500</u>		<u>37,500</u>
TIF Funds available	738,448		700,630
Legal fees	3,015		1,616
Miscellaneous	7,425		5,790
Economic development	225,000		225,000
Transfers to:			
Dye Street Project	8,262		-0-
GH Christiansen Subdivision	50,509		-0-
Downtown Upper Story/ Façade	30,740		-0-
Debt Service Fund	339,847		345,014
General Fund	25,000		25,000
Sewer Equipment Replacement Fund	-0-		500
Industrial Park Fund	<u>48,650</u>		<u>97,710</u>
Total expenditures	738,448		700,630
Cash balance, end of year	\$ -0-	\$	-0-

In 2001, the City entered into 28E Agreements with Shelby County and the Harlan Community School District to remit a portion of TIF funds based on formula to both Shelby County and the Harlan Community School District for capital improvements and economic development, respectively. During the fiscal year ended June 30, 2005, the State Auditor's Office questioned the 28E Agreements with the county and the school district on the grounds that the TIF funds may not be expended by the county and the school district except in urban renewal areas of the City. The State Auditor's Office also questioned the City's compliance with Chapter 403 of the Code of Iowa (Urban Renewal and Tax Increment Financing) and recommended the City consult with legal counsel to ensure compliance with provisions of Chapter 403 and the City's Urban Renewal Plan.

In November 2005, as a result of the State Auditor's inquiry and recommendation by legal counsel, the City Council voted to terminate participation in the 28E Agreements with both Shelby County and the Harlan Community School District effective July 1, 2006. In addition, the City's General Fund will pay back the TIF funds it transferred to the General Fund for fiscal years 2004, 2005 and 2006. The \$300,000 payback will be appropriated for fiscal years 2007 through 2014. For the year ended June 30, 2011, the General Fund reimbursed the Urban Renewal Fund \$37,500. \$150,000 remains outstanding.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

(12) Related Party Transactions

Business transactions between the City and City officials totaled \$15,833 for the year ended June 30, 2011.

(13) Budget Over-expenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2011, disbursements in the debt service function exceeded the amounts budgeted.

(14) Grants

STEP Grants

For the year ended June 30, 2011, the Harlan Police Department was awarded a \$953 grant for bullet proof vests from the Iowa Department of Public Safety.

Disaster Relief Grant

For the year ended June 30, 2011, the City of Harlan received \$25,994 in Federal Disaster Relief and \$3,259 in State Disaster Relief pertaining to ice storms in 2010.

Federal Aviation Administration Grant

In 2009, the Harlan Municipal Airport was awarded a \$651,085 Airport Improvement Grant from the Federal Aviation Administration. The matching grant required a 5% or \$128,850 local match. For the year ended June 30, 2011, the City had received final grant funds of \$83,328.

Community Development Block Grant

On June 22, 2011, the City was awarded a \$373,000 CDBG Housing Fund Program Grant through the Iowa Department of Economic Development. The Grant requires a \$25,000 local match and fosters rehabilitation of ten owner occupied low-to-moderate income households within a targeted area of the City. No grant funds were received in the year ended June 30, 2011.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

(15) Commitments

Harlan Country Club Estates

In September 1999, the City entered into an agreement with Harlan Country Club Estates, Inc. for the construction of road infrastructure in a residential development area. Under the terms of the agreement, the City agrees to pay \$15,100 per housing unit. There are 25 units and the City remains obligated for 8 infrastructure payments as of June 30, 2011.

Ambulance Commission of Shelby County

On March 7, 2005, the City entered into a joint voluntary undertaking with Myrtue Memorial Hospital for the formation of the Ambulance Commission of Shelby County, as authorized by Chapter 28E of the 2005 Code of Iowa. The commencement date of the joint undertaking was July 1, 2006. The city administrator and an appointed individual serve on the five-member board of directors. The Ambulance Commission was established to provide ambulance services to the citizens of Harlan and Shelby County, Iowa. The agreement commits the City of Harlan to contribute 33-1/3% of the total cost of providing ambulance service to Shelby County. For the year ended June 30, 2011, the City contributed \$33,000.

E911 Communications Center Services

On August 7, 2001, the City contracted with Shelby County to provide E911 communications services through the Shelby County Emergency Management Commission for Harlan beginning July 1, 2001 and ending June 30, 2006. The communications services provided to Harlan during this period included dispatching, answering phones for the Harlan Police Department on night and weekends, MCIC access, city alarm monitoring and radio log maintenance and reports. After June 30, 2006, the parties will continue this contract on a year to year basis. For the year ended June 30, 2011, the City contributed \$102,169 to the Shelby County Emergency Management Commission.

Agreement for GIS Services

In July 2003, the City of Harlan, Harlan Municipal Utilities and Shelby County entered into an agreement for the exchange and distribution of Geographic Information System (GIS) data. Shelby County developed a digital graphic and tabular database depicting land and cadastral data. This agreement is renewed annually and stipulates an annual fee of \$15,000. For the year ended June 30, 2011, the City contributed \$15,000 to Shelby County for GIS services.

Performance Agreement - CiDirect, Inc.

On December 1, 2006, the City entered into a refundable conditional grant agreement with CiDirect, Inc. for the formation and maintenance of at least eighty-six new full-time jobs for five years. The refundable conditional grant amount is \$129,000 and obligates CiDirect, Inc. to refund the grant or portion of the grant with interest in the event of default.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

(15) Commitments (Continued)

Performance Agreement - Variety Distributors, Inc.

On February 19, 2008, the City entered into a forgivable loan agreement with Variety Distributors, Inc. as an incentive to create at least sixty full time equivalent jobs in the community and maintain them over a five year period. The \$60,000 forgivable loan bears interest at 7% and matures on March 1, 2013. The debt will be forgiven upon satisfaction of the terms of the agreement.

Performance Agreement - Superior Midwest Foods, LLC

On October 15, 2008, the City entered into a forgivable loan agreement with Superior Midwest Foods, Inc. as an incentive to maintain eleven full time equivalent jobs through December 31, 2016 and create and maintain another nineteen full time equivalent jobs for five years by December 31, 2016. The \$16,800 forgivable loan bears interest at 7% and matures on December 31, 2016. The debt will be forgiven upon satisfaction of the terms of the agreement.

Performance Agreement - FB Harlan, LP

On December 21, 2010, the City entered into a forgivable loan agreement with FB Harlan, LP. The City agreed to pay a tax credit reservation fee of \$37,893 to the Iowa Finance Authority by no later than December 29, 2010, on behalf of FB Harlan, LP. The payment constitutes a forgivable loan from the City to FB Harlan, LP, accrues interest at 6% per annum from the date of payment, and requires FB Harlan, LP to construct and own 27 single family homes in the GH Christiansen Subdivision. The debt will be forgiven upon completion of development.

G.H. Christiansen Subdivision

In May 2007, the City began infrastructure development on a forty-acre tract of land in north Harlan. The \$2.5 million project will provide 79 single and multi-family housing lots. The grading, street development and installation of gas, water, electric, phone, fiber optics and sewer lines were completed by 2010. For the year ended June 30, 2011, the City expended \$130,898 for the construction of the first house on Lot 6 of the subdivision.

Petersen Family Wellness Center

On January 22, 2008, the City committed \$500,000 in eligible tax increment financing funds to the construction of a community wellness center. The second of five payments of \$100,000 was made during the year ended June 30, 2011.

Shelby County DevelopSource

On March 4, 2008, the City committed \$25,000 to Shelby County DevelopSource for fiscal years 2010, 2011, and 2012. The organization promotes and coordinates economic development and monitors the City's performance agreements with CiDirect, Variety Distributors, Superior Midwest Foods, LLC, and FB Harlan, LP.

CITY OF HARLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

(15) Commitments (Continued)

College Park Plaza

On September 4, 2007, The City and Iowa Western Community College entered into a 28E Agreement, as authorized by Chapter 28E of the 2005 Code of Iowa, for the construction of an IWCC campus on City owned property. The satellite campus provides classrooms for IWCC and an information technology center as well as other facilities that promote the economic development of the community.

On June 3, 2008, the Harlan Industrial Foundation committed \$625,000 to the College Park construction project and the City agreed to reimburse the Foundation \$125,000 in TIF eligible funds in five equal payments due July 1, 2009 through 2013. There are no fees or interest costs to the City. For the year ended June 30, 2011, the City reimbursed the Foundation the second of five \$125,000 payments.

Affordable Housing Program

In January 2010, the City was awarded a \$50,000 grant from the Iowa Finance Authority for the construction of a house in the G.H. Christiansen Subdivision. The grant required a local match and is an eligible tax increment financing expenditure for low to moderate income family housing. On June 15, 2010, the City awarded construction contract to Knudsen Construction for the project which was completed by June 30, 2011.

Downtown Façade and New Residential Rehabilitation Program

On April 20, 2010, the City appropriated up to \$60,000 for the residential rehabilitation project and \$40,000 for the facade beautification, awning or enhancement project for use by qualified property owners on the square of downtown Harlan. The City will provide up to \$15,000 to property owners for new, one-time residential improvements to existing buildings or the City will provide up to \$5,000 for a façade, attached enhancements (exterior staircases or railings), or awnings on the square of downtown Harlan. As of June 30, 2011, six grants were approved for the upper story residential and two grants for the building façade projects. As of June 30, 2011, \$29,653 was awarded to grant participants.

(16) Subsequent Events

In July 2011, the City entered into construction contracts totaling \$56,080 for the 19th Street Sanitary Sewer Project, \$172,394 for the Industrial Parkway Sanitary Sewer Extension, and \$1,264,000 for the Wastewater Facility / Lift Station Improvement Project.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HARLAN

**BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS**

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2011

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Property tax	\$ 2,025,923	\$ -0-
Tax increment financing	700,948	-0-
Other city tax	494,847	-0-
Licenses and permits	83,935	-0-
Use of money and property	85,093	131,926
Intergovernmental	945,377	-0-
Charges for services	410,184	14,421,926
Special assessments	5,271	-0-
Miscellaneous	112,396	99,177
Total receipts	<u>4,863,974</u>	<u>14,653,029</u>
Disbursements:		
Public safety	1,298,212	-0-
Public works	1,083,467	-0-
Community and economic development	554,117	-0-
Culture and recreation	911,837	-0-
General government	514,232	-0-
Debt service	872,198	-0-
Capital projects	265,712	-0-
Business type	-0-	16,586,586
Nonprogram	(702)	-0-
Total disbursements	<u>5,499,073</u>	<u>16,586,586</u>
Excess (deficiency) of receipts over (under) disbursements	(635,099)	(1,933,557)
Other financing sources, net	<u>913,552</u>	<u>286,801</u>
Excess (deficiency) of receipts and other financing sources	278,453	(1,646,756)
Balance beginning of year	<u>951,035</u>	<u>21,882,570</u>
Balance end of year	\$ <u><u>1,229,488</u></u>	\$ <u><u>20,235,814</u></u>

See Accompanying Independent Auditor's Report

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
\$ 2,025,923	\$ 1,959,039	\$ 1,959,039	\$ 66,884
700,948	699,645	699,645	1,303
494,847	423,750	423,750	71,097
83,935	16,100	16,100	67,835
217,019	82,040	82,040	134,979
945,377	761,076	761,076	184,301
14,832,110	18,406,777	18,406,777	(3,574,667)
5,271	2,000	2,000	3,271
211,573	85,900	85,900	125,673
<u>19,517,003</u>	<u>22,436,327</u>	<u>22,436,327</u>	<u>(2,919,324)</u>
1,298,212	1,019,880	1,603,066	304,854
1,083,467	1,241,955	1,564,063	480,596
554,117	230,791	560,791	6,674
911,837	823,153	929,803	17,966
514,232	490,955	560,590	46,358
872,198	643,490	857,849	(14,349)
265,712	55,802	380,330	114,618
16,586,586	30,298,889	19,938,085	3,351,499
(702)	-0-	-0-	702
<u>22,085,659</u>	<u>34,804,915</u>	<u>26,394,577</u>	<u>4,308,918</u>
(2,568,656)	(12,368,588)	(3,958,250)	1,389,594
<u>1,200,353</u>	<u>7,500,000</u>	<u>976,626</u>	<u>223,727</u>
(1,368,303)	(4,868,588)	(2,981,624)	1,613,321
<u>22,833,605</u>	<u>22,833,605</u>	<u>22,833,605</u>	<u>-0-</u>
\$ <u>21,465,302</u>	\$ <u>17,965,017</u>	\$ <u>19,851,981</u>	\$ <u>1,613,321</u>

CITY OF HARLAN

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING

JUNE 30, 2011

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, except blended component units, Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated function level, not by fund. The budget was amended on May 24, 2011, decreasing budgeted disbursements by \$8.4 million. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceed the amounts budgeted in the debt service function.

OTHER SUPPLEMENTARY INFORMATION

CITY OF HARLAN

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2011

	Special Revenue								Other
	Local Option	Upper Story Façade	GHC Subdivision	Urban Renewal	Library Trust	Police Trust	Beebe Trust	Spec Rev Funds	
Receipts:									
Property tax	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	
Tax increment financing	-0-	-0-	-0-	700,948	-0-	-0-	-0-	-0-	
Other City tax	443,546	-0-	-0-	-0-	-0-	-0-	-0-	-0-	
Use of money and property	-0-	-0-	-0-	-0-	3,339	-0-	-0-	-0-	
Intergovernmental	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	
Charges for services	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	
Special assessments	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	
Miscellaneous	-0-	-0-	2,067	-0-	11,337	-0-	2,000	-0-	
Total receipts	443,546	-0-	2,067	700,948	14,676	-0-	2,000	-0-	
Disbursements:									
Operating:									
Public safety	-0-	-0-	-0-	-0-	-0-	856	-0-	-0-	
Public works	1,970	-0-	-0-	-0-	-0-	-0-	-0-	-0-	
Comm and econ development	-0-	29,652	173,965	235,440	-0-	-0-	2,000	519	
Culture and recreation	-0-	-0-	-0-	-0-	16,887	-0-	-0-	-0-	
General government	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	
Capital projects	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	
Total disbursements	1,970	29,652	173,965	235,440	16,887	856	2,000	519	
Excess (deficiency) of receipts over (under) disbursements	441,576	(29,652)	(171,898)	465,508	(2,211)	(856)	-0-	(519)	

See accompanying independent auditor's report.

SCHEDULE 1

	Capital Projects						
	College Plaza	Sewer Lift Project	Airport Improve	Dye Street	Sewer Rehab	Library Building	Total
Receipts: (Continued)							
Property tax	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Tax increment financing	-0-	-0-	-0-	-0-	-0-	-0-	700,948
Other City tax	-0-	-0-	-0-	-0-	-0-	-0-	443,546
Use of money and property	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Intergovernmental	-0-	-0-	83,328	-0-	-0-	-0-	86,667
Charges for services	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Special assessments	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Miscellaneous	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Total receipts	-0-	-0-	83,328	-0-	-0-	61	15,465
							1,246,626
Disbursements:							
Operating:							
Public safety	-0-	-0-	-0-	-0-	-0-	-0-	856
Public works	-0-	-0-	-0-	-0-	-0-	-0-	1,970
Comm and econ development	-0-	-0-	-0-	-0-	-0-	-0-	439,057
Culture and recreation	-0-	-0-	-0-	-0-	-0-	-0-	19,406
General government	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Capital projects	-0-	121,558	1,200	97,111	17,000	-0-	236,869
Total disbursements	-0-	121,558	1,200	97,111	17,000	-0-	698,158
Excess (deficiency) of receipts over (under) disbursements	-0-	(121,558)	82,128	(97,111)	(17,000)	61	548,468

	Special Revenue							Other
	Local Option	Upper Story Facade	GHC Subdivision	Urban Renewal	Library Trust	Police Trust	Beebe Trust	Spec Rev Funds
Excess (deficiency) of receipts over (under) disbursements	441,576	(29,652)	(171,898)	465,508	(2,211)	(856)	-0-	(519)
Other financing sources (uses):								
Sale of property	-0-	-0-	2,000	-0-	-0-	-0-	-0-	-0-
Transfers in	-0-	30,740	50,509	37,500	-0-	-0-	-0-	-0-
Transfers out	(435,709)	-0-	-0-	(503,008)	-0-	-0-	-0-	-0-
	(435,709)	30,740	52,509	(465,508)	-0-	-0-	-0-	-0-
Net change in cash balances	5,867	1,088	(119,389)	-0-	(2,211)	(856)	-0-	(519)
Cash balances beginning of year	-0-	(1,088)	20,600	-0-	17,619	3,771	10,995	3,079
Cash balances end of year	\$ 5,867	\$ -0-	\$ (98,789)	\$ -0-	\$ 15,408	\$ 2,915	\$ 10,995	\$ 2,560
Cash Basis Fund Balances								
Restricted for other purposes	\$ 5,867	\$ -0-	\$ -0-	\$ -0-	\$ 15,408	\$ 2,915	\$ 10,995	\$ 2,560
Unassigned	-0-	-0-	(98,789)	-0-	-0-	-0-	-0-	-0-
Total cash basis fund balances	\$ 5,867	\$ -0-	\$ (98,789)	\$ -0-	\$ 15,408	\$ 2,915	\$ 10,995	\$ 2,560

See accompanying independent auditor's report

SCHEDULE 1 (Cont'd)

	Capital Projects					
	College Plaza	Sewer Lift	Airport Improve	Dye Street	Sewer Rehab	Library Building
						Total
Excess (deficiency) of receipts over (under) disbursements	-0-	(121,558)	82,128	(97,111)	(17,000)	61
548,468						
Other financing sources (uses):						
Sale of property	-0-	-0-	-0-	-0-	-0-	-0-
Transfers in	-0-	-0-	58,899	8,262	-0-	-0-
Transfers out	-0-	-0-	-0-	-0-	-0-	-0-
(938,717)						
(750,807)						
Net change in cash balances	-0-	(121,558)	141,027	(88,849)	(17,000)	61
(202,339)						
Cash balances beginning of year	21,491	-0-	(142,227)	88,849	-0-	57
23,146						
Cash balances end of year	\$ 21,491	\$ (121,558)	\$ (1,200)	\$ -0-	\$ (17,000)	\$ 118
(179,193)						
Cash Basis Fund Balances						
Restricted for other purposes	\$ 21,491	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 118
Unassigned	-0-	(121,558)	(1,200)	-0-	(17,000)	-0-
(238,547)						
Total cash basis fund balances	\$ 21,491	\$ (121,558)	\$ (1,200)	\$ -0-	\$ (17,000)	\$ 118
(179,193)						

CITY OF HARLAN
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2011

	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due
	Jan 1, 2004	3.60%	\$ 1,770,000	\$ 625,000	\$ -0-	\$ 410,000	\$ 215,000	\$ 20,349	\$ 645
	Mar 16, 2009	2.20 - 2.60%	\$ 530,000	435,000	-0-	105,000	330,000	10,020	660
	Aug 7, 2007	4.00 - 4.30%	\$ 3,815,000	3,575,000	-0-	160,000	3,415,000	150,980	12,048
	Jun 1, 2011	1.20 - 3.80%	\$ 990,000	-0-	990,000	-0-	990,000	-0-	2,318
			\$ 4,635,000	\$ 4,635,000	\$ 990,000	\$ 675,000	\$ 4,950,000	\$ 181,349	\$ 15,671

Obligation

General Obligation Bonds:

Refinancing Capital Note
Refunding Bonds
Combined Issue
G.O. Bonds

See Accompanying Independent Auditor's Report.

SCHEDULE 3

CITY OF HARLAN
BOND AND NOTE MATURITIES
JUNE 30, 2011

General Obligation Bonds and Note

Year Ending June 30,	Refinancing Capital Loan Note Issued Jan 1, 2004		Combined Issue Callable June 30, 2015 Issued July 10, 2007		Combined Issue Issued Mar 16, 2009		G.O. Bonds, Series 2011 Issued June 1, 2011		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2012	--	\$ -0-	4.00%	\$ 165,000	2.20%	\$ 110,000	1.20%	\$ 40,000	\$ 315,000
2013	3.60%	215,000	4.00%	170,000	2.40%	110,000	1.20%	50,000	545,000
2014	--	-0-	4.25%	235,000	2.60%	110,000	1.20%	50,000	395,000
2015	--	-0-	4.25%	165,000	--	-0-	2.00%	60,000	225,000
2016	--	-0-	4.25%	170,000	--	-0-	2.00%	60,000	230,000
2017	--	-0-	4.25%	180,000	--	-0-	2.50%	65,000	245,000
2018	--	-0-	4.25%	185,000	--	-0-	2.50%	65,000	250,000
2019	--	-0-	4.25%	195,000	--	-0-	3.00%	70,000	265,000
2020	--	-0-	4.25%	205,000	--	-0-	3.00%	65,000	270,000
2021	--	-0-	4.25%	215,000	--	-0-	3.25%	70,000	285,000
2022	--	-0-	4.25%	225,000	--	-0-	3.25%	70,000	295,000
2023	--	-0-	4.25%	235,000	--	-0-	3.50%	75,000	310,000
2024	--	-0-	4.25%	250,000	--	-0-	3.50%	80,000	330,000
2025	--	-0-	4.25%	260,000	--	-0-	3.80%	85,000	345,000
2026	--	-0-	4.30%	275,000	--	-0-	3.80%	85,000	360,000
2027	--	-0-	4.30%	285,000	--	-0-	--	-0-	285,000
		<u>\$ 215,000</u>		<u>\$ 3,415,000</u>		<u>\$ 330,000</u>		<u>\$ 990,000</u>	<u>\$ 4,950,000</u>

See Accompanying Independent Auditor's Report

CITY OF HARLAN
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS

FOR THE LAST EIGHT YEARS

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Receipts:				
Property tax	\$ 2,025,923	\$ 1,786,162	\$ 1,722,090	\$ 1,616,821
Tax increment financing collections	700,948	611,180	517,593	493,868
Other city tax	494,847	433,037	448,915	444,541
Licenses and permits	83,935	76,814	70,919	74,021
Use of money and property	85,093	74,134	78,176	161,454
Intergovernmental	945,377	1,264,385	2,004,457	1,176,419
Charges for service	410,184	449,920	534,851	440,585
Special assessments	5,271	3,880	7,122	5,404
Miscellaneous	112,396	196,973	424,176	168,180
Bond proceeds	982,947	-0-	528,410	3,778,211
Sale of property	2,666	26,901	9,932	110,939
Total	\$ <u>5,849,587</u>	\$ <u>4,923,386</u>	\$ <u>6,346,641</u>	\$ <u>8,470,443</u>
Disbursements:				
Operating:				
Public safety	\$ 1,298,212	\$ 949,364	\$ 983,002	\$ 1,043,969
Public works	1,083,467	1,106,564	1,132,733	1,119,022
Community and economic dev	554,117	235,494	211,368	359,763
Culture and recreation	911,837	800,439	833,871	811,031
General government	514,232	483,744	465,307	466,907
Debt service	872,198	649,844	1,124,564	633,710
Capital projects	265,712	993,567	2,947,130	2,274,980
Total	\$ <u>5,499,775</u>	\$ <u>5,219,016</u>	\$ <u>7,697,975</u>	\$ <u>6,709,382</u>

SCHEDULE 4

	<u>2007</u>		<u>2006</u>		<u>2005</u>		<u>2004</u>
\$	1,490,434	\$	1,369,632	\$	1,404,035	\$	1,461,570
	746,189		1,199,550		1,091,014		980,614
	348,062		294,368		22,641		16,371
	62,066		65,371		60,021		54,195
	116,655		106,389		88,450		78,525
	853,006		1,381,898		965,230		1,667,288
	412,506		402,974		351,277		371,945
	14,435		977		4,186		7,535
	204,896		156,695		284,384		497,532
	-0-		-0-		-0-		-0-
	-0-		-0-		-0-		-0-
\$	<u>4,248,249</u>	\$	<u>4,977,854</u>	\$	<u>4,271,238</u>	\$	<u>5,135,575</u>
\$	1,281,470	\$	1,084,826	\$	733,141	\$	688,146
	800,153		756,129		818,117		832,249
	361,077		377,533		-0-		570,820
	720,360		727,450		677,455		573,477
	389,961		294,416		861,968		395,676
	488,448		512,095		494,018		499,108
	544,516		989,072		1,612,417		1,874,477
\$	<u>4,585,985</u>	\$	<u>4,741,521</u>	\$	<u>5,197,116</u>	\$	<u>5,433,953</u>

See Accompanying Independent Auditor's Report.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

MUXFELDT

ASSOCIATES, CPA, P.C.

Certified Public Accountant

September 1, 2011

Lonnie G. Muxfeldt
Certified Public
Accountant

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Harlan, Iowa as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents and have issued my report thereon dated September 1, 2011. My report expressed unqualified opinions on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Harlan's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of the City of Harlan's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of Harlan's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

Continued . . .

Member of American Institute of Certified Public Accountants,
Iowa Society of CPA's and AICPA⁴⁷ Private Companies Practice Section

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Harlan's financial statements will not be prevented or detected and corrected on a timely basis. I did not note any deficiencies in internal control over financial reporting that I consider to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I did not note any deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

Compliance and Other Matters

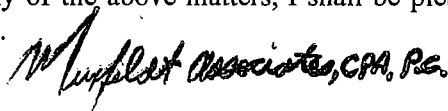
As part of obtaining reasonable assurance about whether the City of Harlan's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, I noted certain immaterial instances of noncompliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Harlan's responses to findings identified in my audit are described in the accompanying Schedule of Findings. While I have expressed my conclusions on the City's responses, I did not audit the City of Harlan's responses and accordingly, I express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Harlan and other parties to whom the City of Harlan may report. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of Harlan during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

 Murphy & Associates, CPA, P.C.

**CITY OF HARLAN
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2011**

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

No matters were noted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part II: Other Findings Related to Statutory Reporting:

II-A-11 Certified Budget - Disbursements during the year ended June 30, 2011 exceeded the amounts budgeted in the debt service function. Chapter 384.20 of the Code of Iowa state, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

II-B-11 Questionable Disbursements - I did not note any disbursements that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1970. However, I did note instances in which documentation was not available to substantiate training, travel, and conference reimbursements.

Recommendation - The City should review procedures to insure that all training, travel, and conference-reimbursements are properly substantiated.

Response - We will review our policy and procedures.

Conclusion - Response accepted.

II-C-11 Travel Expense

No disbursements of city money for travel expense of spouses of city officials or employees were noted.

**CITY OF HARLAN
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2011**

Part II: Other Findings Related to Statutory Reporting: (Continued)

II-D-11 Business Transactions

Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business connection	Transaction Description	Amount
Kayla Jacobs, Zoning Board of Adjustment	Downtown Façade Program	\$ 833
Sandra Ronfeldt, Zoning Board of Adjustment	Upper Story Residential Rehabilitation Program	\$ 15,000

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Zoning Board of Adjustment Members do not appear to represent a conflict of interest since each individual qualified by application as a property owner in the targeted program area.

II-E-11 Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory provisions. However, the amount of coverage should be reviewed annually to insure adequate coverage for current operations.

II-F-11 Council Minutes

No transactions were found that I believe should have been approved in the Council minutes but were not.

II-G-11 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

II-H-11 Revenue Notes

The City has no revenue debt at June 30, 2011.

II-I-11 Payment of General Obligation Bonds

General Obligation Bonds were paid from the Debt Service Fund as required by Chapter 384.4 of the Code of Iowa.

**CITY OF HARLAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

Part II: Other Findings Related to Statutory Reporting: (Continued)

II-J-11 Financial Condition - The following Funds had deficit balances as of June 30, 2011:

<u>Fund</u>		<u>Deficit</u>
Capital Projects - Airport Improvement	\$	1,200
Capital Projects - GH Christiansen Subdivision		98,789
Capital Projects - Wastewater Lift Project		121,558
Capital Projects - Sewer Rehabilitation		17,000
Enterprise - Sewer		49,702
Internal Service - Group Insurance		4,827
Total	\$	<u>293,076</u>

Recommendation - The City should monitor these deficits in order to return these funds to a sound financial position.

Response - The deficits will be eliminated upon the receipt of grants and the completion of the projects. The group insurance deficit will be eliminated by transfer.

Conclusion - Response accepted.

